

## Message Text

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64

ACTION EUR-25

INFO OCT-01 ADP-00 AID-20 CIAE-00 COME-00 EB-11 FRB-02

INR-10 NSAE-00 RSC-01 TRSE-00 XMB-07 OPIC-12 CIEP-02

LAB-06 SIL-01 OMB-01 PA-03 PRS-01 USIA-12 RSR-01 /116 W  
----- 056657

R 141634 Z MAY 73

FM AMEMBASSY OTTAWA  
TO SECSTATE WASHDC 1038

UNCLAS OTTAWA 1157

E. O. 11652: N/ A

TAGS: EFIN , CA

SUBJECT: BANK RATE INCREASED TO 5.75 PERCENT

1. FOR SECOND TIME IN 35 DAYS, BANK OF CANADA INCREASED BANK RATE. ACCORDING ANNOUNCEMENT LATE MAY 11, BANK RATE BEING INCREASED BY ONE- HALF PERCENT TO 5.75 PERCENT EFFECTIVE MAY 14 . RATE HAS RISEN BY ONE PERCENT SINCE EARLY APRIL ( ANNOUNCEMENT EARLIER INCREASED REPORTED OTTAWA 849).

2. BANK OF CANADA PRESS RELEASE NOTES " STRONG UPWARD PRESSURE ON SHORT- TERM INTEREST RATES IN CANADA IN RECENT WEEKS. THIS HAS RESULTED PRIMARILY FROM EXTREMELY STRONG DEMAND FOR CREDIT WHICH HAS BEEN REFLECTED IN UNUSUALLY LARGE INCREASES IN BANK LENDING. AT SAME TIME, THERE HAVE BEEN FURTHER INCREASES IN KEY INTEREST RATES IN U. S." BANK ALSO REITERATED STATEMENT ACCOMPANYING LAST MONTH' S INCREASE TO EFFECT THAT MONETARY POLICY WILL CONTINUE TO BE EXPANSIONARY AND PUBLISHED FOLLOWING QUOTE FORM GOVERNOR BOUEY' S TORONTO SPEECH APRIL 30 ( OTTAWA A-224): "... BANKS HAVE BEEN ASKED TO PAY PARTICULAR ATTENTION TO NEEDS OF SMALL BUSINESSES AND TO APPLICATIONS FOR CREDIT IN SLOWER GROWTH REGIONS OF COUNTRY, AND GIVE PRIORITY TO CREDIT- WORTHY NEEDS OF THEIR CANADIAN CUSTOMERS RATHER

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THAN RESPOND TO UNUSUAL REQUESTS FROM FOREIGN CORPORATIONS OR FOREIGN- OWNED SUBSIDIARIES IN CANADA FOR FUNDS FOR USE ABROAD OR TO REPLACE FUNDS THAT WOULD NORMALLY BE OBTAINED ABROAD."

3. BANK OF CANADA ANNOUNCEMENT CAME FEW HOURS AFTER BANK OF MONTREAL ANNOUNCED 25 BASIS POINT INCREASE IN PRIME RATE TO 6.75 PERCENT EFFECTIVE MAY 14. BANK ALSO STATED INTENTION INTRODUCE SPLIT PRIME RATE SYSTEM WHEREBY SMALL BUSINESS LOANS OF LESS THAN C\$ 100,000 CONTINUE TO BE AVAILABLE AT 6.5 PERCENT.

4. DURING HOUSE OF COMMONS QUESTION PERIOD MAY 11, MINFIN TURNER INDICATED APPROVAL DUAL PRIME RATE SYSTEM WHICH HE SAID RESULTED FROM GOC CONSULTATIONS WITH CHARTERED BANKS. OTHER CHARTERED BANKS EXPECTED FOLLOW SUIT WITH PRIME RATE INCREASES AND DUAL SYSTEM THIS WEEK.  
SCHMIDT

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NMAFVVZCZ

\*\*\* Current Handling Restrictions \*\*\* n/a

\*\*\* Current Classification \*\*\* UNCLASSIFIED

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**Current Classification:** UNCLASSIFIED  
**Concepts:** n/a  
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